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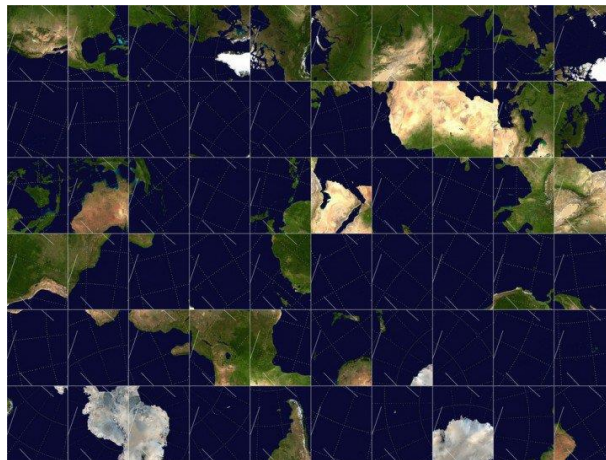
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## Greece, Iran, and the Rules of the Game

By John Feffer

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Alexis Tsipras had a choice. As the leader of the fledgling Syriza government in Greece, he could have told the European Union to stuff its austerity plan. He could have taken the risk that the EU would offer a better deal to keep Greece in the Eurozone. Or, failing that, he could have navigated his country into the uncharted waters of economic independence.

But he chose to “follow the rules” by accepting the EU plan. Greece is getting its financial bailout, Greeks are tightening their belts, and the Eurozone will survive more-or-less intact. Tsipras learned what happens when you challenge the rules of an elite club. Once in a while, the club changes the rules. Most of the time, the club issues an ultimatum: suck it up or move on.

Hassan Rouhani had a choice. As the leader of a new reformist government in Iran, he could have told the international community to keep its nose out of his country’s business. He could have kept adding to Iran’s civilian nuclear program, arguing all the time that it was not in violation of any international agreements. He could have tried to chip away at the international sanctions regime by concluding economic agreements with willing countries.

But he chose to negotiate with the permanent five members of the UN Security Council — plus Germany — and bring Iran into full compliance with International Atomic Energy Agency requirements. By “following the rules” in this way, Rouhani is hoping that the windfall that comes from the lifting of sanctions will provide enough capital to turn around the Iranian economy and boost the prospects of his political cohort.

In Hollywood movies and on TV, the rule breakers usually triumph. I can’t begin to count how many films and shows feature CIA operatives, FBI agents, and police officers that must defy the chain of command in order to do the right thing and collar the bad guys.

But in the real world, breaking the rules usually comes with big penalties. Of course, it all depends on who sets the rules and who dares to defy them. Sometimes the outlaws face a lifetime behind bars. And sometimes they not only break the rules with impunity but win the proverbial jackpot as well.

## **Nuclear Outlaws**

The history of nuclear non-proliferation is checkered, to say the least. As soon as the United States ushered in the atomic age, the proliferation of scientific knowledge ensured that other countries, beginning with the Soviet Union, would barrel their way into the nuclear club. By the time the international community negotiated the Nuclear Non-Proliferation Treaty (NPT) in 1968, three other countries had qualified for membership: China, France, and the United Kingdom.

Although a few countries have given up their programs — Belarus, Ukraine, Kazakhstan, South Africa — the treaty has not served as a sufficient deterrent to other determined aspirants. Both India and Pakistan, locked in a sub-continental wrestling match, decided that the enemy was close at hand and the international community far away. They both endured global censure when they crossed the nuclear threshold, but they eventually found their way back into the good graces of the international community. They were too strategically important to keep semi-permanently in the time-out corner.

North Korea, sanctioned up the wazoo since the Korean War, didn’t think it had anything to lose by building a nuclear deterrent. It flirted with the United States and the other four parties in the Six Party Talks to get a good deal in exchange for freezing its nuclear program. It never got what

it wanted — lifting of sanctions, normalization of diplomatic relations, or even some light-water nuclear reactors — so officially went nuclear in 2006.

Israel is not a declared nuclear power. But, like North Korea, it's pledged to do just about anything to survive in a largely hostile region, maintaining its 100 or so nuclear devices as a trump card should its neighbors threaten its existence. Israel has always considered “playing by the rules” with skepticism, for it believes the rules are skewed against it. India felt the same way about the NPT and the way it locked in privileges for early adopters.

Iran faces some of the similar problems as other powers contemplating the nuclear option. It has hostile neighbors (Iraq, Israel, the Gulf States). It has incurred the wrath of key nuclear powers (particularly the United States). And it sees nuclear power as a signifier of status.

Moreover, Iran was well aware that not having a nuclear weapon could be seen as an invitation to invasion. Look what happened to Libya, which famously traded its nuclear program for a ticket back into the international community and then suffered an aerial assault from that same international community less than a decade later. Look what happened to Ukraine, which gave up its program after the collapse of the Soviet Union and two decades later watched Russia gobble up Crimea and support secessionists in the eastern part of the country. And would NATO have bombed Serbia in the 1990s if Slobodan Milosevic had, however improbably, acquired a nuclear deterrent?

So, given these push and pull factors, why did Iran decide to play by the rules?

The leadership in Tehran made a sensible calculation that it would benefit much more from playing by the rules than defying them. North Korea has served as a cautionary tale of what happens to the internationally isolated: They can take a great leap backward. In North Korea's case, parts of the country jumped nearly back to the 19<sup>th</sup> century. Iran, by contrast, is a country on the verge of economic breakout. It has a strong middle class, a well-educated workforce, and a range of productive industries. With enough capital and enough global connections, Iran could not only dominate the region economically but become a significant global player as well.

In that context, adhering to the rules of the game was a no-brainer. By the same logic, it's unlikely that Iran will cheat — unless it doesn't get the benefits it's been promised.

## **Economic Outlaws**

Most successful economies have outlawed pasts. Go back far enough and you'll find that all the great powers — the United States, Great Britain, Germany — defied the conventional economic wisdom of their age in order to succeed.

More recently, in the 1960s and 1970s, South Korea challenged the laws of comparative advantage and won. The largely agrarian country was supposed to focus on what it did best in the global economy — subcontracting for the Japanese, growing vegetables, and so on. Instead it created globally competitive steel and shipbuilding industries practically from nothing. By refusing to listen to the orthodox economists, South Korea leapfrogged from the level of a sub-

Saharan African country in 1960 into the ranks of the most developed nations in one generation. China has done something similar by continuing to adhere to a state-led industrialization model.

Argentina thumbed its nose at the international financial community, defaulting on its loans, and ultimately paying back creditors at a much-discounted rate. The immediate consequences were devastating, with rising unemployment, rising inflation, and a contracting economy. But Argentina devalued its currency, invested heavily in education and health, took advantage of rising commodity prices (particularly soybeans), and enjoyed steady economic growth after 2003 (though it has more recently cooled).

So why didn't Syriza do the same thing for Greece? As a leftist party, it was certainly comfortable making unorthodox economic decisions.

But Greece is a small country. By IMF statistics, the size of its economy is just a shade ahead of Iraq and Algeria. Its population is only 11 million (Argentina, by contrast, is 41 million). It also doesn't have the kind of leverage that South Korea enjoyed during the height of the Cold War, when the United States needed an ally in Northeast Asia and looked the other way at Seoul's myriad political and economic indiscretions.

Equally germane is Greece's membership in the European Union. "Being pro-Europe means common rules and regulations that you commit to and implement," Finnish Finance Minister Alexander Stubb said rather stiffly. "It's anti-European not to stick to the rules and regulations. That might be a slightly Calvinistic approach, but that's how I see it."

Greece made its decision to join the European Union back in 1981. At that time, the EU was the smart choice, and Greece received considerable help to close the gap with fellow members. But that was then. The EU has morphed from an institution committed to equity to an institution committed to austerity. Having taken the EU path, Greece faced the costs of jumping to a different path (much as a PC user incurs costs for switching to Mac). The costs multiply even more when the other path is not a clearly worked-out alternative. In some ways, Greece is a victim of what economists call path dependency.

And the sorry truth is that things could get worse for Greece. Over the past few years, the country has taken a remarkable tumble in per capita GDP. Once just behind Italy and Spain, it has fallen below the Baltic countries of Lithuania and Estonia, below Slovenia, below the Czech Republic. Greece has moved firmly into Eastern Europe. And it could fall even further.

Sure, by leaving the EU, Greece could theoretically become the next Argentina. It could devalue its resurrected drachma and force creditors to accept a haircut on the debt. But given the size of its economy and its relative lack of export industries, Greece would more likely become the next Albania, no matter how sensible Syriza's economic alternatives might seem on paper.

By staying with the EU and the Eurozone, Greece avoids both extremes and will probably stay more or less in the same relative position. If enough Syriza-like parties win in European elections, there's even a remote chance that they will band together to change the rules of the EU game in a more Keynesian direction.

## **Who Gets To Be an Outlaw?**

It's no surprise that the powerful both set the rules and break the rules with impunity. The world system isn't presided over by Miss Manners.

The nuclear club established the rules of the NPT, which included a pledge to reduce their nuclear arsenals — a stipulation they've largely ignored. The United States established the rules of the global economy, and the dollar as the currency of choice, and has largely escaped the fate of austerity economics despite our not inconsiderable annual deficit and mounting government debt.

For small countries like Greece, there's not much room for maneuver between the regulations of the EU and the general parameters established by globalization. There isn't much room for democracy either, as Greek citizens discovered when they voted in Syriza and attempted to vote out austerity in the more recent referendum. Democracy is a mainstay of the nation-state. But the EU and the global economy have trumped the parochial concerns of democracy.

Iran, a larger country that plays a strategic role in the Middle East, has considerably more room for maneuver than does Greece. But it too cannot unilaterally remake the rules of the game. It can only negotiate the best deal it can. In the end, it must open itself up to the kind of inspection regime that more powerful countries would never tolerate. It is, of course, the height of hypocrisy for Israel, which refuses to disclose whether it has a nuclear program at all — much less permit access to its secret sites — to insist that Iran open up virtually every corner of the country to a highly intrusive verification regime.

But the rules of the game are changing. The model of “international community” that we've been driving is more than 65 years old, and its engine is starting to conk out.

All the major rule-setting institutions reflect the balance of power that reigned in the immediate aftermath of World War II. The World Bank was founded in 1944, the IMF and United Nations in 1945, and the European Coal and Steel Community (which served as the cornerstone of the future European Union) in 1951. But what will happen as Germany and France exert less control within the EU, as China builds new international financial institutions, as the UN finally tackles the problem of reforming the Security Council? What will happen as U.S. relative power in the world continues to decline?

New rule-makers mean new rules. Get ready: A new world is not only possible, it's just around the corner.